

FULL DISCRETION TEAM

Quarterly Credit Update

Key Takeaways

We believe the US economy continues to be in the late cycle phase of the credit cycle. Growth appeared to be marginally improving in the US. We do not anticipate a recession at this time, rather, our base case calls for trend-like growth. Our internal risk premium framework, within investment grade (IG) and high yield (HY) corporate credit, suggested defaults/losses, though slightly elevated, will remain aligned with historical averages for this part of the cycle.

Credit health continued to remain stable as corporate fundamentals, technicals and earnings growth continued to be stable. There were no signs of credit deterioration, and we believe corporate balance sheets can weather potential volatility in the macroeconomic backdrop. The IG bond market has benefited from a multi-year upgrade cycle that has strengthened credit quality, bringing the share of BBB-rated bonds in the IG universe to a historic low. IG sentiment remained constructive, and demand continued to outweigh supply as investors aimed to lock in attractive yields. Within HY bonds, leverage rose to its highest level in years, although it remained within pre-COVID norms. HY issuance was strong, marking the busiest quarter for the market in four years.

Mergers and acquisitions (M&A) activity was up year-to-date, boosted by a wave of September announcements as tariff-related uncertainty eased and economic conditions remained supportive. Contributing factors included greater clarity on tax policy via the One Big Beautiful Bill Act of 2025, a more favorable regulatory environment, and steady inflation, alongside steady gross domestic product (GDP) growth and consumer spending. Despite the pickup this quarter, overall HY M&A volumes remained below long-term trends, and the broadly anticipated surge in related supply has yet to materialize in primary markets. In fact, 2025 M&A and leveraged buyout (LBO) related issuance in the US HY market is near its lowest level since 2009.

About the Team

The Full Discretion team brings decades of expertise and collaboration to create tailored solutions for their clients.

27

Investment Professionals

23+

Avg. Years of Industry Experience
(Portfolio Management Team)

\$83.9

Team Assets Under Management
(Billion USD)

Team Philosophy

We have a legacy of independent thinking and leaning into the market when others may be pulling away. We take a deep-value, equity-like approach to credit selection across global fixed income markets. Our disciplined process helps gives us confidence in seeking to identify macro trends, formulate a clear view on market sectors, and invest throughout the credit cycle.

For more than 40 years, we have been applying our distinctive style of bond picking to deliver portfolios designed to provide excess yield potential and have low correlations to traditional benchmark-focused fixed income strategies.

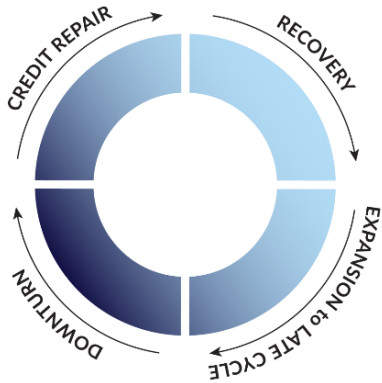
Source: Loomis Sayles, as of 9/30/2025

Average years of expertise reflected at portfolio management level

Credit Cycles/Risk Premium

Credit Cycle Remains in Late Cycle Stage

In our view, the credit cycle remains firmly in the late cycle stage. This continues to be supported by recent tariff negotiations, a healthy mid-to-high income consumer and stable corporate fundamentals.

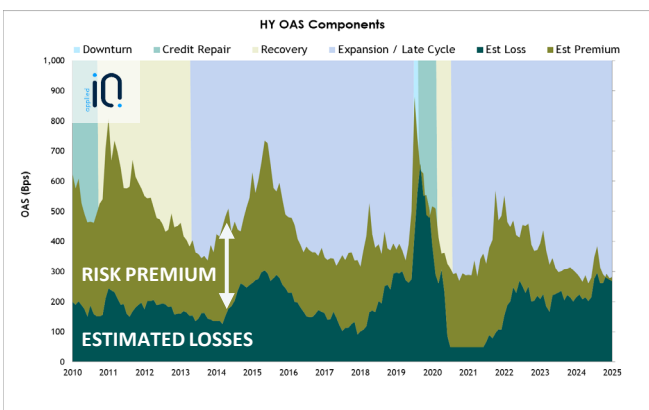


As of 9/30/2025. Chart shown for illustrative purposes only. This reflects the current opinions of Loomis Sayles Macro Strategies team, and views are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

Credit Losses Rose Modestly, Still Aligned with Historical Norms

While predicted credit losses were moderately elevated over the quarter, our IG and HY corporate credit models suggested defaults/losses will remain in line with historical averages for this part of the cycle. Despite the moderate rise in credit losses, corporate fundamentals and profitability continued to be positive tailwinds.

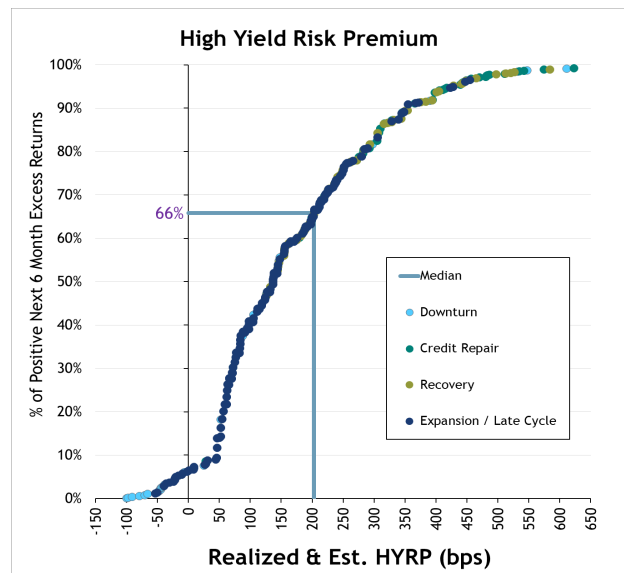
Estimated High Yield Risk Premium Components Over Time



IG and HY Risk Premiums Continued to Inch Lower

Our internal IG and HY risk premiums have compressed slightly, driven by narrowing spreads and a slight uptick in projected credit losses.

Median High Yield Risk Premium & Probability of Positive Excess Return



Source: Loomis Sayles, Bloomberg and Moody's, as of 9/30/2025. OAS is based on the Bloomberg US Corporate High Yield Index.

The charts presented are shown for illustrative purposes only. Some, or all, of the information on these charts may be dated, and, therefore, should not be the basis to purchase or sell any securities. The information is not intended to represent any actual portfolio managed by Loomis Sayles. This analysis is based on historical data and does not predict future results. Therefore, the use of this type of information to make investment decisions has inherent limitations. Markets may behave very differently than history suggests, it is not possible for any methodology to accurately identify and interpret all relevant market events.

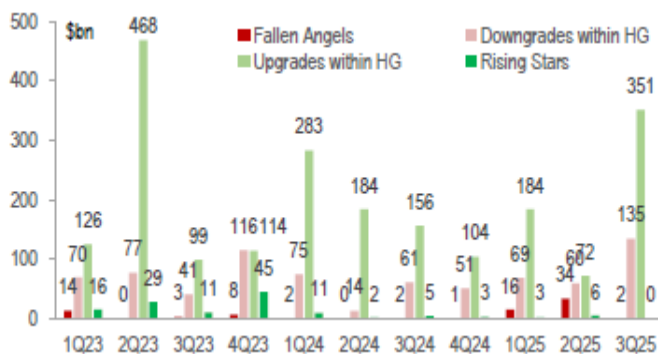
Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal. Please see the Risk Premium Disclosure Statement for additional important information. **Past performance is no guarantee of future results.**

Fundamentals

Market Backed by Solid Fundamentals and Credit Upgrades

Fundamentals in the HY market remained stable and supportive, providing a strong backdrop for credit performance. Issuers continued to manage their balance sheet conservatively, which should serve as a buffer against potential economic slowdown, in our view. The market has also benefited from a multi-year upgrade cycle, resulting in the lowest historical percentage of BBB-rated bonds within the IG universe – a trend we will continue to watch, as we believe it reflects a broader strengthening of credit quality.

High Yield Upgrades and Downgrades



Source: J.P. Morgan and Bloomberg, as of 9/30/2025

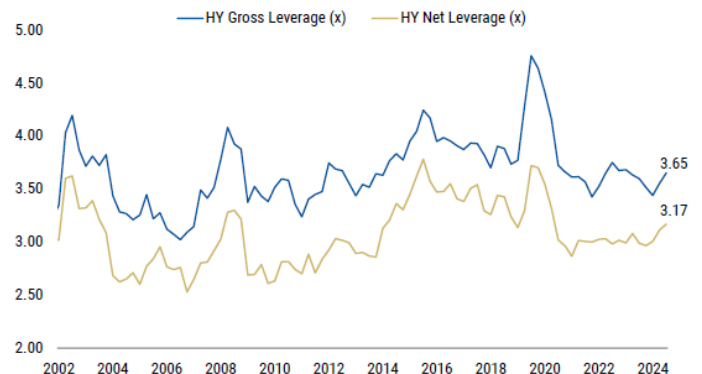
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Past performance is no guarantee of future results.

HY Leverage Rose but Remained Within Pre-COVID Norms

Leverage rose to its highest level since 2022, though it remained aligned with pre-COVID averages. The increase was partly driven by year-over-year growth in total debt, following nine consecutive quarters of deleveraging.

Historical Leverage



Source: Bloomberg, S&P Capital IQ and Morgan Stanley Research, as of 9/19/2025

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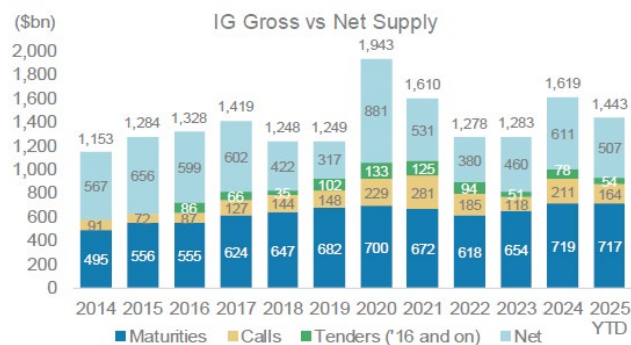
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Technicals

Technical Strength and Constructive Sentiment Supported IG Market

Technical factors continued to support the IG market. Overall sentiment remained constructive, with IG bonds delivering positive returns amid 9 basis points (bps) of spread tightening and Treasury yields declining. September saw a seasonal uptick in issuance, but year-to-date net supply remained lower than 2024, contributing to tight spreads and minimal new issue concessions. On the demand side, investors showed strong interest in the 10-year part of the curve, eager to lock in higher yields ahead of anticipated lower coupons.

Investment Grade New Issuance

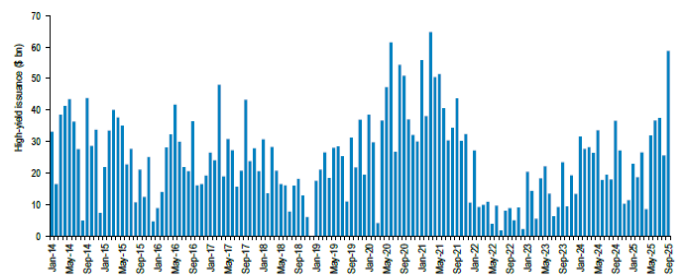


Source: Dealogic, Bloomberg and Morgan Stanley Research, as of 9/30/2025
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Healthy Technicals in High Yield

HY bond issuance totaled \$59B in September, marking the busiest month since March 2021 (and the third-busiest month on record). Non-refinancing related activity reached its highest level since November 2021. Gross and net issuance volumes were the heaviest since 2021. However, this was largely offset by a healthy volume of both called debt due to bonds with the 12-month maturity constraint rolling off and rising stars exiting the HY universe. As a result, net new supply was easily absorbed by the market.

High Yield New Issuance



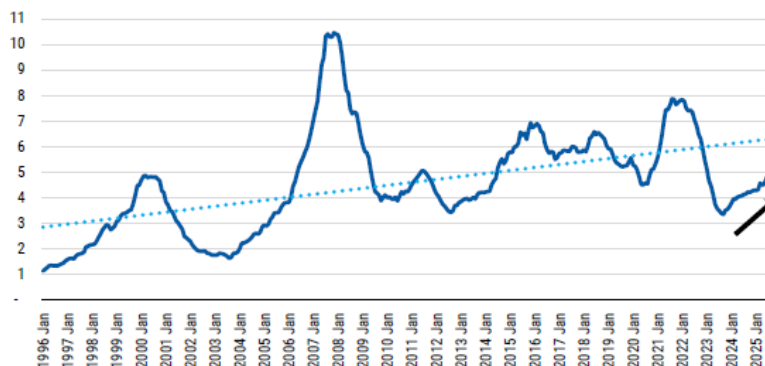
Source: J.P. Morgan, as of 9/30/2025
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Security Selection

Rebound in M&A and LBO Activity

Year-to-date M&A activity is up compared to last year, boosted by a wave of September announcements as tariff-related uncertainty eased and there was greater clarity around tax policy following the introduction of the One Big Beautiful Bill Act of 2025. Additionally, the regulatory environment became more favorable, while tariff pressures eased and the shockwaves from the second quarter, especially in April, did not reemerge. Meanwhile, inflation remained steady, and both GDP growth and consumer spending have remained robust. With this increase in activity, combined with a fairly positive growth outlook in the US and supportive regulatory environment, we have higher expectations for increased deal flow heading into 2026.

Last Twelve Months (LTM) Announced M&A Volume (\$T)

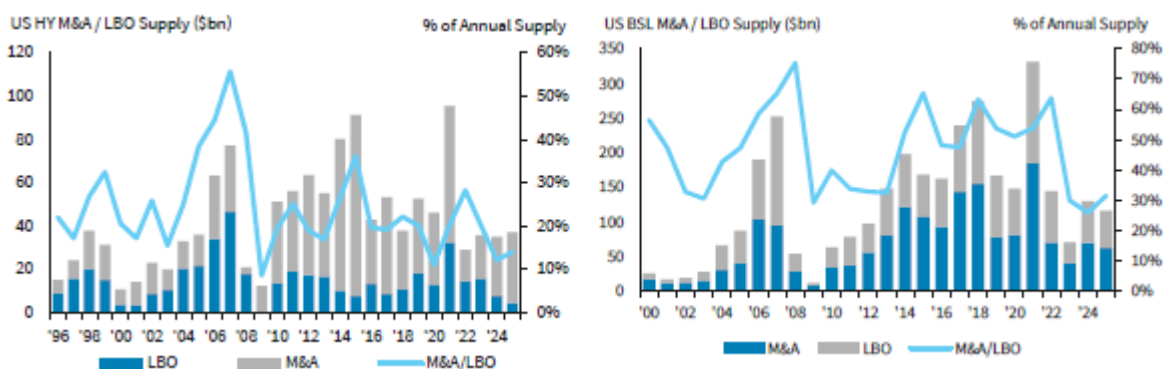


Source: Dealogic and Morgan Stanley Research, as of 9/30/2025

The chart presented above is shown for illustrative purposes only.

Despite the increased activity we saw this quarter, M&A volumes were still below long-term trends. More specifically, the anticipated increase in M&A and LBO related supply failed to fully materialize in the primary markets. Post the 2024 US presidential election risk, we came into 2025 with the expectation of a deluge of new supply (due to the above-mentioned easing of the regulatory environment). However, in US HY, the percentage of new issue supply related to M&A and LBO activity is near its lowest level since 2009. The same can also be said about the broadly syndicated loan (BSL) market.

US High Yield and Broadly Syndicated Loan M&A and LBO Supply



Source: Bloomberg, Pitchbook LCD and Barclays Research, as of 9/30/2025. BSL data is ex-repricings.

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Meet the Team

MATT EAGAN, CFA

Head of Full Discretion, Portfolio Manager

BRIAN KENNEDY

Portfolio Manager

PETER SHEEHAN

Portfolio Manager, Credit Strategist

MICHAEL KLAWITTER, CFA

Portfolio Manager, Bank Loans Strategist

HEATHER YOUNG, CFA

Portfolio Manager, Bank Loans Strategist

ERIC WILLIAMS

Portfolio Manager

BRYAN HAZELTON, CFA

Portfolio Manager, Associate Portfolio Manager, Investment Grade Corporate Strategist

CHRIS ROMANELLI, CFA

Portfolio Manager, Associate Portfolio Manager, High Yield Corporate Strategist

SCOTT DARCI, CFA

Portfolio Manager, Associate Portfolio Manager, Convertibles & Equity Strategist

DAVID ZIELINSKI, CFA

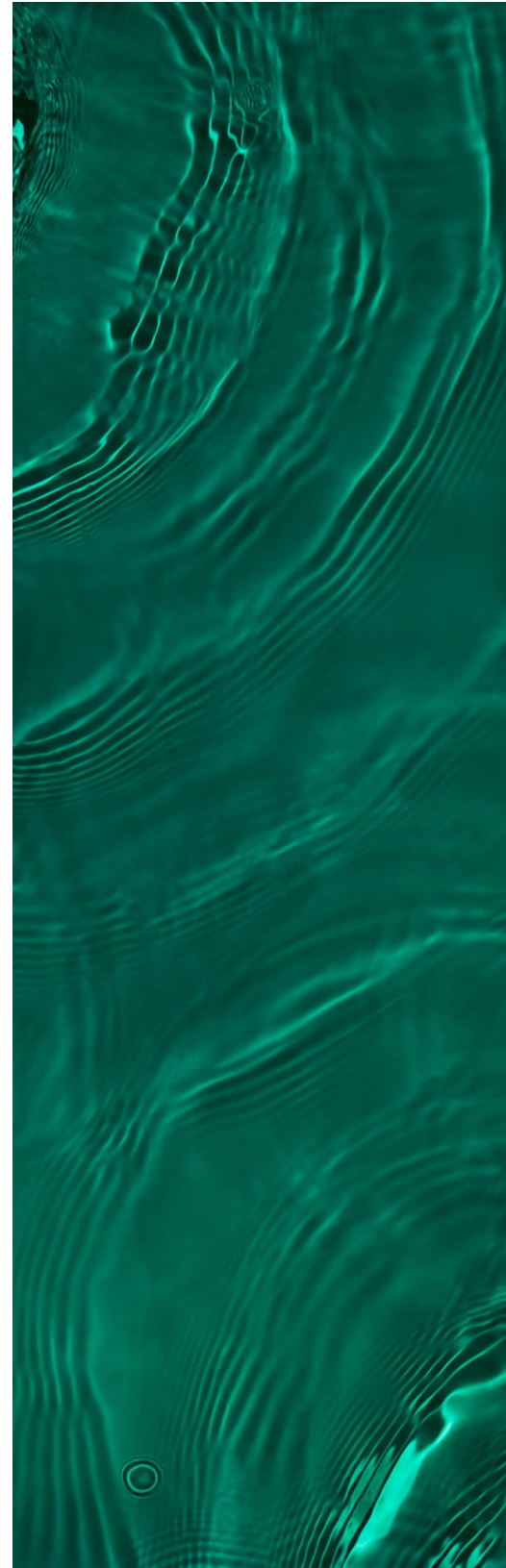
Investment Director

CHERYL STOBER

Investment Director

KRISTEN DOYLE

Associate Investment Director



Important Disclosures

CREDIT CYCLE REGIME PERIODS

EXPANSION/LATE CYCLE:

4/1/1997- 8/31/2000; 3/1/2006-12/31/2007; 1/1/2014- 2/28/2020;
4/1/2021 - 9/30/2025 (PRESENT)

DOWNTURN:

9/1/2000 - 11/30/2001; 1/1/2008 - 6/30/2009; 3/1/2020 -
4/30/2020

CREDIT REPAIR:

12/1/2001 - 5/30/2003; 7/1/2009 - 5/31/2011; 5/1/2020 -
10/31/2020

RECOVERY:

6/1/2003 - 2/28/2006; 6/1/2011-12/31/2013; 11/1/2020 -
3/31/2021

As of 9/30/2025

Regime periods are determined by Loomis Sayles Macro Strategies team based on a variety of subjective and objective factors, including past economic and asset performance metrics. Views and opinions expressed reflect the current opinions of the team, and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

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The analysis is based on historical data and does not predict future results. Markets may behave very differently than history suggests, it is not possible for any methodology to accurately identify and interpret all relevant market events. Therefore, the use of this type of information to make investment decisions has inherent limitations. There is no guarantee that future experience will be similar. The analysis reflected in this presentation is limited to certain periods. We make no representation that the experience of any other periods is comparable.

Unless otherwise specified, all analysis covers the period from 6/30/1996 to 9/30/2025

ADDITIONAL IMPORTANT DISCLOSURE

Principal Investment Risks: Investments in bonds can lose their value. When interest rates rise, bond prices usually fall and vice versa. High yield securities are subject to a high degree of market and credit risk, including risk of default. In addition, the secondary market for these securities may lack liquidity which, in turn, may adversely affect the value of these securities and that of the portfolio. Foreign investments involve special risks including greater economic, political and currency fluctuation risks, which may be even greater in emerging markets. Currency exchange rates between the US dollar and foreign currencies may cause the value of the investments to decline. Commodity-related investments, including derivatives, may be affected by a number of factors including commodity prices, world events, import controls and economic conditions and therefore may involve substantial risk of loss. Equity securities are volatile and can decline significantly in response to broad market and economic conditions.

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Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

This is not an offer of, or a solicitation of an offer for, any investment strategy or product.

Market conditions are extremely fluid and change frequently.

Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

Past market experience is no guarantee of future results.